

March 10, 2008

Mayor's State of the City Report

Annapolis is a special place.

For most of us, it is a privilege to call Annapolis home.

Is life in Annapolis perfect at all times?

Of course not.

Like all cities, we have challenges. This budget addresses some of them.

No city can be an island unto itself any longer.

Creating and sustaining a liveable city requires active collaboration and the sharing of resources among all levels of government and community institutions.

In August, 2007, I issued a call to action to initiate a new task force with State and Federal agencies to stem the increase of illegal drugs and illegal guns in our city. I asked that we engage in a unified effort to increase our number of drug arrests. And we have, from 275 in 2006 to 394 in 2007. I hope to see more in 2008. We are all working for the day that we have no need for a single drug arrest.

After months of hard work, a collaborative effort with State and Federal agencies was announced in February, 2008. This collaboration is unique.

The Capital City is now a role model for this new shared effort. The success of the Capital City Safe Streets program is a tremendous responsibility. I have taken the following steps to help ensure that success:

1. This Budget reflects more than 1 Million dollar investment in public safety.

This investment includes a starting salary for police officers at \$43,000 with raises throughout the ranks. This amount, plus health and pension benefits places our police department as #1 in the state.

The investment also includes new money for recruitment and new technology – vital tools for police action in the urban environment of the 21st century.

Additional to this is an affordable housing program for public safety personnel.

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2. Coordinating the Safe Street multi-agency program is a major responsibility the State has asked us to take on. I am asking for the creation of an Office of Youth & Community Action. Existing Community Relations staff will be a part of this office, but the office will require a new Director's position. This office will coordinate the multi-agency effort and spearhead a drug prevention and intervention effort to:

- ▶ disrupt the supply of drugs
- ▶ reduce the demand for drugs through education
- ▶ provide treatment options for those addicted.

The administration has applied for Federal and State funds for this drug program. The new multi-agency task force will also bring new dollars and in-kind support into the City.

3. Recognizing that it takes a village to raise a child, I am calling on every citizen to make a moral commitment to the young people in this city. This program, to be unveiled more fully next month, will initiate a private-public partnership to advance opportunity through education for at-risk youth.

I am confident that all of us working together can raise an endowment fund of at least \$1 Million Dollars. The interest from this fund will provide new opportunities through education in a 4-pronged program coordinated under the Office of Youth and Community Action.

- 1) To offer exciting new programs for our 4th, 5th, and 6th graders through introductory programs in STEM - a word used by corporate partners at Northrop Grumman for Science, Technology, Engineering and Mathematics- a priority need in our country as a whole.
- 2) To partner our young people with mentors who can assist them through tough times and making wise decisions and choices.
- 3) To open new job opportunities through skill-building workshops as we have done with Sherwin Williams, and restoring wooden windows in historic districts, opening new horizons in green technology and jobs and offering new opportunities to intern within departments of City government.
- 4) To provide scholarships to the community colleges and universities in the state to fulfill the need of a more civil and less violent world.

These initiatives, built on multi-agency and private partnership are designed to inspire dreams and to stem the tide of violence in our city.

Additionally, new directions in this budget include an infrastructure maintenance fund equivalent to a sum of 1% of the Operating Budget to address ever-increasing demands. Our water plant built 100 years ago requires priority attention. To enhance fire safety, \$200,000 has been added to meet requests for our sprinkler fund.

The actions I have described above can be met by retaining our 53¢ per \$100 tax rate on our assessable base.

But, they come at the expense of reducing our grant program to the non-profits that provide so much toward making our city special. Budget enhancements in historic preservation and in every City department are severely curtailed. Matching funds for grants we depend on are also now in question.

Meeting the needs of these essential programs will require finding new revenue sources or adding 1½¢ to the current 53cent tax rate.

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A budget is more than a bunch of numbers on a spread sheet – it is a living document that reflects our priorities and our vision.

Cities, by their very nature, possess citizens with diverse backgrounds and different needs.

Annapolis is no exception.

A broad range of diversity ensures economic vitality and protection against the types of failed neighborhoods that are described in Jane Jacob's classic Death and Life of Great American Cities.

Diverse populations with diverse needs require different focuses from their government.

Sometimes this involves change. Resistance to change often pits one group's interests against another. This is particularly true when sustaining our economic vitality demands new action.

Annapolis is too often "at war with itself." -

Others have said of us, and I quote:

"Many worthy projects die the slow "death of 1000 cuts"...a negative atmosphere abounds around every new idea...people don't realize that economic vitality is required for municipal sustenance..."

Perhaps most distressing, here in the 21st century, is that there remains an underlying sense of racial tension and division in our City. Letters to the Editor talk about getting rid of "those people" and the politics of fear pit neighbor against neighbor. And give power to those that would do us harm.

We all believe in our heart of hearts that Annapolis is a City That Cares where Good Things Happen. We must commit ourselves to working together toward common goals that benefit each of us...not just a few.

Balancing diverse and conflicting interests is and will always be one of our biggest challenges.

Even with our challenges and petty wars, our city, known from its earliest days as the "Athens of America" for our wealth of cultural activities, gracious hospitality and bustling seat of government, is a special place.

The view from the top of Main Street, where the town crier once called the news, is filled with masts and sails and 18th & 19th century landmark buildings.

On a clear day it truly seems you can see forever.

We are honored to walk along the same paths where the Calverts and George Washington, Thomas Jefferson, Abraham Lincoln and every governor of our state have walked.

Annapolis is a special place that we are all privileged to call home.

Three hundred years after our founding as a local government, our 7.2 square miles still contain a city of immense vitality.

While our 36,500 population is only 7.11% of the county's population and 1.38% of the Baltimore metro area, the City of Annapolis generates some 2.6 % of the metro area sales revenue and 12% of the county's sales revenue.

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\$55 Million in sales tax revenue from purchases made within the City limits goes directly into State coffers-our City is a popular place. People come from all over the world to shop, dine and enjoy our abundant cultural activities. We continue to be a bustling seat of government. We are a national historic district and we are recognized internationally as the sailing capital of the United States.

Annapolis is a special place.

Unlike many of our local government neighbors we are not facing huge deficits – Annapolis is financially sound, maintaining an AA+ Bond rating. This summer we sold \$29 Million dollars in bonds at 4.27% interest – comparable to the State's recent sale at a AAA rating.

Despite the large number of Federal, State, County, religious and non-profit properties exempted from property tax, with a tax value to the City of approximately \$59,000,000, we have been able to reduce and hold the line on the City tax rate while continuing to supply the full range of services to our citizens.

Our City is recognized as a municipal leader on environmental issues, our police and fire departments are nationally accredited, our recreation and parks department is seeking national accreditation, and our transportation department has received national recognition.

The Annapolis Maritime Museum, damaged by Isabel, is well underway, the City Dock Project is nearing completion, Phases 1 and 2 of the Back Creek Nature Park are completed and the new Recreation Center is out to bid.

I commend this year's budget to you for your review and action and extend my thanks to the Department heads and members of the City Council who have and will put so much time into its consideration.

The budget is generous in some areas, not so in others.

But it is balanced; as the law requires.

It addresses the challenges we face in public safety and looks toward sustaining the quality of life that we all desire.

Annapolis is indeed a special place. We are a City that Cares.

Let us pledge to work together and take the steps now that will secure us in the present and ensure future generations the same opportunities we enjoy.

Annapolis is a special place...Good Things are Happening here...every day.

Respectfully submitted

Ellen O. Moyer, Mayor

Changes from the FY 2009 Proposed to the FY 2009 Adopted Budget

The Mayor's State of the City Report is presented to the City Council and the Citizens of Annapolis as an accompaniment to the Mayor's Proposed Operating Budget and Capital Improvement Program. The State of the City Report highlights the Mayor's major initiatives and goals contained in the proposed budget for the upcoming year, focusing on the proposed property tax rate, organizational changes, and major capital projects. Once the Mayor's proposed budget has been presented to the City Council, the Council may then propose amendments to the Mayor's budget; these amendments are voted on during the City Council meeting at which the budget is adopted.

The Mayor's State of the City Report on the preceding four pages includes projects and changes that the Mayor had incorporated into her proposed budget; some of these were modified, replaced, or eliminated by the City Council when the budget was adopted.

Changes from the proposed budget to the adopted budget are as follows:

<i>Adjustments to Revenues</i>	<i>From</i>	<i>To</i>	<i>Change</i>
Proposed FY 2009 Revenues			\$81,360,720
Change in fee schedule - EMS billing	480,000	600,000	120,000
Adjust Fund Balance funding - Water Fund	500,360	524,630	24,270
Adjust Fund Balance funding - Sewer Fund	285,330	309,600	24,270
Adjust Fund Balance funding - Stormwater Mgmt	5,260	29,520	24,260
Adopted FY 2009 Revenues			\$81,553,520

<i>Adjustments to Expenditures</i>	<i>From</i>	<i>To</i>	<i>Change</i>
Proposed FY 2009 Expenditures			\$81,360,720
Increase Contract Services - Finance	264,560	780,060	515,500
Decrease Salaries - Mayor and Public Information	728,590	711,650	(16,940)
Increase Salaries - City Attorney	544,200	605,700	61,500
Increase Salaries - Economic Affairs	235,990	307,930	71,940
Increase Contract Services - Economic Affairs	0	50,000	50,000
Decrease Salaries - Human Resources	598,160	568,160	(30,000)
Decrease Contract Services - Planning & Zoning	31,000	0	(31,000)
Increase Repair and Maintenance - Central Services	262,060	462,060	200,000
Increase Salaries - Police Department	11,915,190	11,955,790	40,600

Changes from the FY 2009 Proposed to the FY 2009 Adopted Budget

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<i>Adjustments to Expenditures</i>	<i>From</i>	<i>To</i>	<i>Change</i>
Decrease Contract Services - Police Department	408,550	208,550	(200,000)
Decrease Salaries - Fire Department	9,124,390	8,789,390	(335,000)
Increase Benefits - Fire Department	2,356,260	2,506,260	150,000
Increase Supplies - Fire Department	367,430	402,430	35,000
Increase Salaries - Neighborhood & Environmental Programs	1,380,140	1,406,050	25,910
Increase Salaries - Public Works	666,930	812,530	145,600
Decrease Special Projects - Recreation & Parks	175,820	155,820	(20,000)
Decrease Community Services - Sprinkler Assistance	200,000	100,000	(100,000)
Increase Community Services - Electrical Assistance	0	100,000	100,000
Contingency - Departmental Cuts	0	(397,510)	(397,510)
Interfund - Administrative Accounts	(3,164,000)	(3,309,600)	(145,600)
Administrative Overhead : Water Fund	400,960	425,230	24,270
Administrative Overhead : Sewer Fund	64,810	89,080	24,270
Administrative Overhead : Stormwater Mgmt	482,340	506,600	24,260
Adopted FY 2009 Expenditures	\$81,553,520		

Budget Overview

Operating Program:

- The adopted operating budget of \$81,553,520 is an increase over FY2008 of 8.6%. Increases in personnel costs make up 48% of this overall increase and represent 63% of the total budget. Due to an issuance of \$29 million in bonds in FY2008, debt service accounted for another 55% of the increase. Other operating expenses were actually decreased to offset these two major areas of increase.
- Continued rising property values along with newly occupied developments provided the main source of revenue for this increase. The real property tax revenue is expected to increase 12% over FY2008. The City has not increased its property tax rate since FY1999 and the property tax rate for FY2009 will remain \$.53 per \$100 of assessed value.
- Funding provides for cost of living salary increases and a continued sharing of 85% of the health benefits for employees.
- Enhances police officer recruiting with increases to starting pay and with increased funds for technology and new equipment.
- Enhances the Fire Department with the final reduction in work hours that results in a fourth shift for both emergency medical and fire suppression services.

Capital Improvement Program:

- The approved FY2009 capital budget is \$37,381,490 and the six year capital improvement program is now estimated at \$220,151,595. Under this program the City continues to be aggressive in attracting new development and commercial revitalization while providing improvements for current citizens and businesses.
- During FY2009, the City will begin construction of the \$6.5million renovation of the Eastport Fire Station and a new \$16.8 million Recreation Center.
- Consolidation of City services and offices will continue with the planned renovation of the old Planning and Zoning offices for relocation of Management Information Technology and the new Public Access Studio.
- Additional multiple, major road improvement and utility projects have been included in both FY2009 as well as the long range plan.
- The City has authorized the sale of an additional \$32 million in bonds to help fund these projects along with \$3 million in State grant funding.

Regional Map



Community Profile

Annapolis is an incorporated municipal corporation of the State of Maryland (the "State"), possessing substantial home rule powers under the State constitution. First settled in 1649 by Puritans fleeing Virginia, the City was chartered in 1708 and served as the capital of the United States when the Congress met there in 1783-84. The City serves both as the capital of the State and as the county seat for Anne Arundel County; and acquired home rule in 1954. Annapolis is situated on the Western shore of the Chesapeake Bay, at the mouth of the Severn River, east of and midway between Baltimore and Washington, D.C. The City has been the home of St. John's College (founded as King William's School) since 1696 and the United States Naval Academy since 1845.

The City covers an area of approximately eight square miles. Population in 1950 was 10,047, but growth as well as annexation caused that figure to double by 1960 and more than triple by 1980. According to the 2000 Census, the population is 35,838, exclusive of the Naval Academy population of approximately 5,500. The Naval Academy constitutes a Federal enclave within the City, but is not within the corporate limits of Annapolis.

The appearance of the City is dominated by the handsome buildings of the Naval Academy and the historic State House of Maryland. In addition, there are a number of contemporary State and County office buildings which have been designed in keeping with the prevailing Georgian architecture of the community. Because of the number of residential structures of significant historic and architectural value for which Annapolis is famous, private and public groups have joined together to retain or to recapture the historic atmosphere of the community in keeping with modern urban requirements. An application to the Department of Interior to enlarge the then existing Historic District as designated on the National Register of Historic Places was approved in 1984. The Annapolis Comprehensive Plan was adopted by City Council in May, 1998.

Annapolis is served by three major highways, U.S. Routes 50/301, Maryland Route 2 and Interstate 97 which connect with the Chesapeake Bay Bridge, immediately northeast of the City. The District of Columbia is 27 miles to the west and the City of Baltimore is 27 miles to the north.

The City is governed by a Mayor and a City Council. The City is authorized to issue debt, subject to certain indebtedness limitations, for the purpose of financing its capital projects and to incur certain other indebtedness.

The executive offices of the City are located at the Municipal Building, 160 Duke of Gloucester Street, Annapolis, Maryland 21401.

The legislative body of the City is the City Council, consisting of the Mayor as the presiding officer and eight Aldermen who together comprise the City Council. One Alderman is elected from each of the eight wards into which the City is divided and must be a resident of the ward. The Mayor is elected at large. The Aldermen and the Mayor serve four-year terms, commencing in December of the year following the presidential election. The City Council has six standing legislative committees: Economic Matters, Finance, Public Safety, Rules and Government, Environmental Matters, and Housing and Human Welfare. The Mayor and Aldermen have one vote each. A simple majority is sufficient to pass legislation.

The City has independent jurisdiction over streets, street lighting, refuse collection and disposal, police, parks, harbor, off-street parking, public transportation, fire suppression and emergency services, planning and zoning, public health, water production and distribution, and sewage collection. Primary and secondary education is provided by the Board of Education of Anne Arundel County.

Demographic and Statistical Profile

Community Profile:

Date of Incorporation	1708
Form of government	Mayor and Council

Age Composition (% in 2000), continued

75 - 84 years	4.4
85 + years	1.3

Demographics:

Household Income and Expenditures (per 2000 U.S. Census)

Area in square miles

2008	7.90
2007	7.90
2006	7.90

Median Household Income	\$49,243
Per Capita	\$27,180
% below Poverty Level	9.5%
Median Housing Value (owner-occupied)	\$165,600
Median Mortgage Payment	\$1,349
Median Gross Rent (renter-occupied)	\$762

Climate

Average summer temperature (±5°)	71.9
Average winter temperature (±5°)	46.2
Average annual precipitation (inches)	40.8
Average annual snowfall (inches)	20.5

Households and Housing Units

Population

2008	36,400
2007	36,300
2006	37,300
2005	36,750
2004	36,210
2003	36,180
2002	36,100
2001	35,900
2000 per U.S. Census	35,838
1999	35,000
1998	35,000
1997	35,000
1996	34,400
1995	34,400

Households	15,303
Housing Units	16,192
Tenure	
Renter	7.398
Vacancy Rate	3.8%
Owner	7.905
Vacancy Rate	1.4%

Economics:

Employment by Industry (%)

Construction	5.6
Manufacturing	4.8
Retail Trade	10.7
Finance, Insurance, and Real Estate	5.7
Education, Health and Social Services	22.1
Arts, Entertainment and Food Service	12.1
Professional, Scientific, Management and Administrative	13.5
Public Administrative	9.2

Median Age

2000 per U.S. Census	35.7
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Age Composition (% in 2000)

Under 5 years	6.7
5 - 9 years	6.0
10 - 14 years	5.6
15 - 19 years	5.9
20 - 24 years	6.9
25 - 34 years	17.7
35 - 44 years	15.7
45 - 54 years	14.3
55 - 59 years	5.3
60 - 64 years	4.0
65 - 74 years	6.3

Taxes

Local Retail Sales Tax Rate	6%
Personal Income Tax Rate	4.75%
Corporate Excise and Income Tax	7%
Franchise Tax:	
Public Utilities - based on % of gross receipts apportioned to MD	2%
Unemployment Compensation Tax - base rate	7.1%

Demographic and Statistical Profile

- continued -

2008 Property Tax Assessed Valuation

Primary	\$5,755,096,342
Secondary	\$155,927,620

Building Permits

Commercial

<u>Year</u>	<u>Permits</u>	<u>Value</u>
2008	296	\$42,830,126
2007	308	\$25,494,044
2006	334	\$30,133,958
2005	361	\$101,125,015
2004	390	\$87,819,105
2003	355	\$30,470,365
2002	306	\$13,727,071
2001	290	\$23,978,994
2000	312	\$30,391,663
1999	271	\$13,810,889

Residential

<u>Year</u>	<u>Permits</u>	<u>Value</u>
2008	1,195	\$28,296,974
2007	1,030	\$34,309,629
2006	1,329	\$59,901,509
2005	1,025	\$76,137,639
2004	1,160	\$39,180,383
2003	1,113	\$42,498,578
2002	920	\$42,532,887
2001	836	\$57,536,150
2000	784	\$23,582,607
1999	734	\$18,726,165

Service Statistics:

Fire Protection (2008)

Stations	3
Career firefighters	125
Civilian personnel	6

Police Protection (2008)

Stations	1
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Police Protection (2008), continued

Uniformed police officers	131
Civilian personnel	32
Police vehicles	102

Public Works (2008)

Water

Water mains in miles	128
Water treatment plants	1
Storage tanks	4
Water consumption (annually)	1,500 MG
Number of accounts	12,418

Sewer

Sewer lines and storm drains in miles	140
Sewer treatment plant (50% owned)	1
Sewer pumping stations	23
Sewage treated (annually)	1,900 MG
Number of accounts	11,410

Utility Rates

Gas (cents/therm)

General service	
1st 10,000 therms	19.75
additional therms	9.48
Residential	25.61
Electric (cents/kwh)	
Summer	
Residential	10.992
Non-Summer	
Residential	10.136

Recreation - City owned

Playgrounds and parks in acres	125
Baseball fields	4
Football fields	1
Basketball courts	7
Tennis courts	14
Playgrounds	11
Pools	1
Public Boat Ramps	3

Demographic and Statistical Profile

- continued -

Education - County provided

Elementary and secondary schools	12
Elementary school enrollment	2,900
Middle school enrollment	1,030
High school enrollment	1,600
Colleges:	
U.S. Naval Academy enrollment	4,400
St. John's College enrollment	470
Anne Arundel Community College enrollment	14,700

Major Events

Maryland State Legislature in Session	January - April
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Major Events, continued

Waterfront Festival	April - May
U.S. Naval Academy Commissioning	May
Wine Festival	June
Independence Day Fireworks	July
Maryland Renaissance Festival	August - October
Maryland Seafood Festival	September
Anne Arundel County Fair	September
U.S. Sailboat Show	October
U.S. Powerboat Show	October
Chesapeake Appreciation Days	October
Christmas Lights Parade	December
First Night Annapolis	December

The Budget Development Process

November

- Department presentations to Mayor and City Council
- Finance prepares and distributes Operating and Capital Budget Instructions and packages to Departments

December

- Goals and Objectives for the City are reviewed
- Finance prepares Preliminary Revenue Estimates

January

- Departments submit Operating and Capital Budget Requests, Enhancement Requests to Finance Department
- Departments Operating and Capital Budget Requests, Enhancement Requests reviewed with Mayor

February/March

- Finance Department prepares Operating and Capital Budgets with Mayor
- Mayor's Proposed Operating Budget submitted to Council by second Monday in March, Budget legislation to Council for First Reader
- Council hears from Community Grant Applicants
- Capital Improvement Plan is reviewed with the Planning Commission

April

- Finance Committee holds Public Hearings on the Mayor's Proposed Operating and Capital Budgets with Department Directors
- Council Public Hearing held on Proposed Capital Budget, Capital Improvement Program and Constant Yield Tax Rate

May

- Finance Committee recommendations on the Mayor's Proposed Operating Budget to the Council by second Monday
- Council Adopts the Operating and Capital Budgets

July

- Fiscal Year begins on July 1

The Budget Development Process

- continued -

Budget Adoption:

The City Code requires that the Mayor submit a proposed budget (for all funds except the Internal Service Fund, the Pension Trust Fund and the Special Revenue Fund) to the City Council no later than the second Monday in March of each year for the fiscal year commencing the following July 1st. The Finance Committee makes recommendations on the budget to the full City Council. The City Council conducts public hearings on the budget. No later than June 30th, the budget is legally enacted through passage of a budget ordinance which establishes spending authority by fund for the operations of the City. The level on which expenditures may not legally exceed appropriations is the fund level and budget revisions at the fund level require City Council approval.

Budget Revisions:

Procedure for Changes: Because there needs to be a document setting forth each request for a change to the budget, the Finance Office has devised what it calls a budget revision form. This form specifies which line-item budgets are being changed and by how much - and it provides an explanation of, and a justification for the transaction or circumstances that have necessitated the budget change(s). It also provides for the signature of the department director making the request and the signature of the Finance Director affirming the sufficiency of funds supporting the change.

Approval for Changes: Because it is the City Council that establishes the original operating and capital budgets, it is the City Council that must approve changes at the fund level. Members of the Council are appointed to the Finance Committee to do the business of hearing requests for budget changes, evaluating them, and making recommendations to the Council with regard to them.

Budget Basis:

The budgets of general government type funds are prepared on a modified accrual basis. Under this basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred, if measurable, except for debt service which is recognized when due.

The Comprehensive Annual Financial Report (CAFR) is prepared on the basis of Generally Accepted Accounting Principles (GAAP). In most cases this conforms with the way the budget is prepared, with the following exceptions. In the General Fund, the budget basis differs from GAAP in that the budget basis reflects encumbrances as the equivalent of expenditures. GAAP reflects encumbrances only as reservations of fund balance. Also, under the budget basis, interfund transfers are considered the equivalent of revenues and expenditures of the affected funds. In addition, new capital leases are recorded as expenditures and other financing sources only on a GAAP basis. The Comprehensive Annual Financial Report shows fund expenditures and revenues on both a GAAP basis and budget basis for comparison purposes.

The enterprise funds (Water, Sewer, Off Street Parking, Dock, Market, Transportation, Stormwater Management, and Refuse) are budgeted on a full accrual basis. This means that revenues are recognized when they are earned, i.e. water use fees are recognized as revenue when bills are produced, and expenditures are recognized when the liability is incurred.